FISH PROCESSING RATIONALIZATION STUDY

SUMMARY REPORT

Submitted to: **New Brunswick Department of Fisheries and Aquaculture**

Submitted by: **Coopers & Lybrand Consulting**

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Important

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1.
INTRODUCTION

In March 1994, following a response to request for a proposal, Coopers & Lybrand Consulting (CLC) was engaged by the New Brunswick Department of Fisheries and Aquaculture to carry out a Fish Processing Rationalization Study.

The assignment deals specifically with the nine enterprises, identified by Fisheries and Aquaculture, as follows:

- Produits Belle Baie Ltée
- Carapro Ltée
- L'Association Coopérative des Pêcheurs de l'Ile Ltée
- Atlantic Sea Harvest Co. Ltd.
- Pêcheries Nature Ltée
- Morue Impériale Ltée
- Ellis Seafoods Ltd.
- Boreal Seafoods Ltd./Les Immeubles Loric Ltée
- Albert & Sons Ltd.

The objectives of the assignment were to determine the processing entities that can and should continue in a profitable manner and to examine ways to facilitate the withdrawal of those enterprises that are not equipped to continue.

The information and detailed data used in this report was provided by the individual companies and Fisheries and Oceans Canada, Gulf Region. Coopers & Lybrand Consulting is aware of weaknesses in the data provided by Fisheries and Oceans Canada and has highlighted potential problems or margins of error where possible. Coopers & Lybrand Consulting is confident that the information presented in the best available and does not materially impede the intended output of this undertaking.

The results of the assignment are presented in five separate sections of the report as follows:

I. Resource Availability to New Brunswick Rationalization Study
II. Company Profiles
III. Defining the Criteria for a Successful Company
IV. Meeting the Criteria for a Successful Company
V. Rationalization Options

2.
RESOURCE AVAILABILITY TO NEW BRUNSWICK RATIONALIZATION STUDY PLANTS

Many of the plants analyzed in this study have been solely or largely groundfish dependent. Others are more diversified, processing a range of pelagic and shellfish species. The following outlines the likely resource availability for groundfish species in the short to medium term to New Brunswick. It also provides commentary on other major species to which these plants have had access.

Groundfish

An analysis of groundfish availability to New Brunswick plants must include consideration of:

- landings of the Gulf Region fleet to New Brunswick (for the most part from NAFO area 4T)
- landings from other parts of Atlantic Canada
- frozen-at-sea foreign fish

GULF REGION OF NEW BRUNSWICK

The New Brunswick groundfish fishery exploits four main species: cod, redfish, hake and flatfish (the latter two are captured under "Other Groundfish" in the attached model). It is largely inshore with harvesting concentrated in the spring and summer months and little, or no, activity in the winter months. Groundfish accounted for less than 7% of total New Brunswick gulf landings in 1993 and has been steadily declining in its contribution to overall landings since the early 1980s.

Cod

The short to medium term prospects for Southern Gulf cod are not promising. Science Branch of DFO report that the outlook for the short and medium term is not encouraging as there is no indication of significant recruitment, fish growth is low, and the physiological condition of the fish is precarious. In addition:

- the population is probably at its lowest level since 1974;
- the number of fish landed was the lowest since 1974;
- the weights at age of fish are the lowest since 1974;
- the stock cannot really begin to recover until 1997 -1998 or even later, depending on the size of the most recent year-classes;

- between 1989 and 1992 the fishery removed over 50% of the stock biomass annually and new recruits have not made up for these losses; and
- fishing effort needs to remain at or below 1993 levels and recruitment to improve to achieve recovery to former stock levels.

Scientists have made preliminary projections on a recovered Southern Gulf (4T) cod stock, with recovered defined as a biomass level at 2 to 3 times its current size. Recovered landings are forecasted to be between 20,000 MT to 40,000 MT for the entire Gulf and most likely closer to 25,000 MT*. This would be at a sustainable harvesting level of $F_{0.1}$ and only be achievable with a reduction in current harvesting effort of 70%.

Science Branch further reports that the average catch for Southern Gulf cod (all provinces) from 1950 to 1992 to be 50,000 MT. If effort is eliminated and the reduction in access to resources is distributed evenly throughout the Gulf, New Brunswick could expect to see a long term reduction in cod landings.

Cod has been the principal groundfish species in the Gulf Region of New Brunswick accounting for 65% of landings at the decades' peak in 1986 at 12,095 MT, of a groundfish total of 18,601 MT. Between 1984 and 1993, New Brunswick Gulf landed, on average, roughly 14,000 MT of groundfish of which 7,900 MT was cod. Landings began to seriously decline in 1991, then precipitously in 1993 to 4,400 MT. The 4T cod fishery was closed in 1994 and the most recent scientific advice (June 1994) recommends that this conservation measure now be extended to include 1995.

Redfish

Redfish has become a more important species to the Gulf region of New Brunswick over the decade with increased landings even before the decline of cod availability. With the reductions of cod landings in 1993, redfish catches accounted for 69% of all Gulf groundfish landings in New Brunswick. Between 1984 and 1993 redfish landings in the Gulf of New Brunswick averaged 3,500 MT. Landings fluctuated significantly ranging from a low for the period of 1,655 MT in 1983 and a peak of 4,800 MT in 1992.

An indication of the changing status of the Gulf redfish stock was the reduction of the TAC this year from 60,000 MT to 30,000 MT. Redfish stocks have attracted increased effort in the wake of the cod fishery collapse. Cod by-catch problems have limited the redfish fishery early in the year but reduced landings in the spring and summer months resulted from an overall decline in resource availability.

* These figures are based on the Report on the Status of Groundfish Stocks in the Canadian Northwest Atlantic, pg 77, and discussions with DFO Science officials.

The redfish biomass has decreased significantly beyond what was expected and stock rebuilding is expected to take 7 to 8 years after a strong year class is detected. Reductions in TAC can be expected in 1995 and may be as drastic as those experienced in 1994, 50% or more, which would reduce the 4RST 3Pn TAC to 15,000 MT or less.

Science Branch of DFO further report that:

- redfish stocks levels are declining rapidly, and no significant recruitment is currently anticipated;
- stock levels should continue to decline in the absence of recruitment; and
- no recovery is expected before the year 2000.

Flatfish and Hake

Flatfish and hake have become less important species to the Gulf Region of New Brunswick. Between 1984 and 1993, the New Brunswick Gulf landed, on average, 2,800 MT of flatfish and hake, representing 20% of total groundfish landings. Landings fluctuated from a high of 3,900 MT in 1985 to a low of 940 MT in 1993.

The outlook for flatfish is also negative with:

- American plaice expected to remain at low levels;
- Greenland halibut stock levels declining and exploitation rates remaining high; and
- the abundance of witch flounder in 4RST appears to be declining with the current TAC of 3,500 MT being high in relation to catches since 1981.

The white hake stock is reported to be at its lowest level since the first quota was placed upon the fishery in 1982 with fishermen reporting that fish are "smaller" and "scarcer" in recent years.

OTHER ATLANTIC SOURCES OF GROUNDFISH

Several of the facilities under review have relied, some extensively, on groundfish from other than landings in New Brunswick. In particular significant quantities of groundfish have been sourced from Cheticamp, NS area. Lamèque and Shippegan groundfish vessels have historically prosecuted a spring and fall fishery in the Cheticamp area harvesting cod as it enters and exits the Gulf. As this fishery is a part of the Southern Gulf 4T stock, the same assessment applies as above for New Brunswick landed groundfish.

At least one of the study plants was accessing quantities of Northern (2J3KL) cod. This fishery has closed since July, 1992 and is likely to remain closed for some time. The most recent scientific advice reports that stock is in a very depressed state and that recovery in terms of total spawning stock biomass is not possible in the next 5 - 7 years.

FROZEN-AT-SEA FOREIGN FISH

The review of financial documents and operations revealed only one facility, l'Association Co-opérative, processing any significant quantities of frozen-at-sea foreign fish and that was only in 1993. Produits Belle Baie has done limited processing of foreign fish with limited success and will process a limited quantity in 1994.

Estimates of general supply from foreign sources range from 20,000 MT to 50,000 MT for the Atlantic Region. The profitability of processing frozen-at-sea foreign fish has, however, deteriorated in the last year. The price per metric tonne of Russian frozen cod has increased to $US 1,600 from a low of $US 1,200. The successful processing of frozen-at-sea fish is typically limited to larger companies with sales of over $10 million. The reason is that these companies have the resources to source supply and identify potential markets for such fish, and employ the techniques necessary to process a quality product from this raw material.

GROUNDFISH SUMMARY

The overall picture of resource availability for groundfish is bleak with improvements not expected till the late 1990s and maybe even the turn of the century. Even the fall back species, redfish and flatfish, are now in distress or decline and there are no alternate groundfish species to fish. Landings for 1995 are not likely to exceed 2,500 MT and are likely to decline post 1995.

There is no indication that supplies of frozen-at-sea foreign fish will decline over the near future, although the benefits of this source are limited to the large participants in the industry, but prices have increased limiting the type and number of users who can successfully process and market this fish.

Pelagics

Pelagic resources in New Brunswick including herring, mackerel and alewife are generally in a healthy state and are managed on a three year allocation basis which changes only if significant changes to resource availability are experienced.

The pelagic fishery is primarily harvested by the inshore sector. The fishery is year-round with over 50% of catches landed in the summer months. This sharp peak in landings is attributed to the short-term, high-volume herring roe fishery.

Herring accounts for the largest proportion of Gulf New Brunswick fish landings roughly 46%. The fishery is for the full range of herring food products including the usually lucrative roe. Herring availability varies from year to year and is difficult to predict. In addition, harvests can be market driven and often decline with significant declines in roe prices.

The 1993 -1995 Gulf of St. Lawrence herring management plan established a TAC of 145,000 MT which is shared by the inshore fleet and the large seiners. Landings are expected to be stable in the short to medium term at between 70,000 MT to 80,000 MT in 1995.

Molluscs and Crustaceans

The molluscs and crustaceans fishery of shrimp, snow crab, and lobster is a year-round, inshore fishery with harvesting activity concentrated in the spring and summer months . Over 80% of catches were harvested between April and September with landings reaching peaks in May, June, and August. This trend in seasonal landings is primarily linked to the spring and fall lobster seasons.

Shrimp

The outlook for shrimp resource availability is good with science reporting good stock recruitment and a stable or increasing biomass.

Snow Crab

The Southern Gulf snow crab biomass is currently very high but is expected to decrease substantially in coming years due to poor recruitment. Scientists expect the decline to begin in 1995 and to be as much as 25% to 50% of the 1994 landings. Subsequent years are likely to see drastic reductions annually till 1999 when new recruitment is expected to the fishery. New Brunswick landed 8,828 MT of crab in 1993 and is expected to land roughly 11,000 MT in 1994 as the quota was increased for the 1994 fishing season. If declines are realized as expected, crab availability could decline to between 5,500 MT and 8,250 MT in 1995.

Lobster

Lobster landings have been on the increase over the past twenty years with a 100 year high realized in the early 1990s. The scientists report few indices of recruitment but signs that landings may decrease in coming years simply because these peak levels are unlikely to be maintained.

3.
COMPANY PROFILES

PRODUITS BELLE BAIE LTÉE/CARAPRO LTÉE

Produits Belle Baie Ltée (Produits Belle Baie) (a mid-sized company) and Carapro Ltée (Carapro) (a small company), are two affiliated fish processing companies located in Caraquet, Gloucester County, New Brunswick. The companies process groundfish, pelagics, and molluscs and crustaceans in the fresh, frozen, and cured form on a seasonal basis. Between 300 and 400 people are employed at Produits Belle Baie, and 125 at Carapro. It is likely that the Carapro facility will be closed in the very near future as there is insufficient production to warrant the continued operation of the two facilities. Carapro will be used only for peak herring production.

The companies have two principal shareholders, Mr. Valmond Chiasson and Mr. Alie LeBouthillier. Mr. Chiasson reports that the company is profitable and has a sound financial position. This has been confirmed by a reliable outside source.

L'ASSOCIATION COOPERATIVE DES PÊCHEURS DE L'ILE LTÉE

L'Association Coopérative des Pêcheurs de l'Ile Ltée (Co-op Lamèque) operates a large fish processing company located in Lamèque, Gloucester County, New Brunswick. Incorporated in 1943, the company is largely a groundfish and shellfish processing facility but is also involved in limited production of herring. The plant produces both fresh and frozen product on a seasonal basis.

The company is owned and operated by its members. In 1993, the number of members reached 958 including mostly employees and a limited number of management, mid-shore fishermen, and inshore fishermen. The general manager of the plant is Mr. Real Chiasson.

Co-op Lamèque employed 655 people in 1993. The number of employees has declined from a high of an estimated 975 in 1985.

In the last five years, Co-op Lamèque's operating results were strong only in 1990. In the remaining years, the company's profitability reached a high in 1989 and a significant low in 1993, total assets and total equity yielded low returns, and cash flows (with the exception of 1992) were inadequate to service short and long term obligations.

In the first five months of 1994, the company has incurred additional losses. The closure of the groundfish fishery appears to therefore have had a significant financial impact on the company. In fact, if these losses continue then the company's once strong financial position will weaken drastically by the end of the year.

ATLANTIC SEA HARVEST CO. LTD.

Atlantic Sea Harvest Co. Ltd (Atlantic Sea Harvest) is a mid-sized, fish processing company and retail fish market located in Sheila, Gloucester County, New Brunswick. Incorporated in 1983, the company is largely a groundfish processing operation but is also involved in the limited production of herring, mackerel, eels, smelts, lobster, scallops, and soft shell clams. The company also operates a year-round retail fish market. Both operations are housed in a modern, well-maintained 1,714 square metre facility at the corner of Highway 11 and Val Comeau Road.

The plant produces both fresh and frozen product on a seasonal basis. The retail store is open all year. Atlantic Sea Harvest employed 100 people in 1992 and 64 employees in 1993. The retail store employs two full-time people.

The owner of the company, Mr. Allard Benoit, is currently operating the processing plant on a very limited basis, while the retail store is open year-round. Over the winter months of 1993 and 1994, the plant processed limited quantities of flounder and smelt. The retail market is open seven days a week.

Despite the fact that the company has achieved reasonable profitability in four of the past seven years, its financial situation has deteriorated rapidly in the past few years and in March of this year the Royal Bank of Canada, the company's only secured creditor, called its outstanding loans.

PÊCHERIES NATURE FISHERIES LTÉE

Pêcheries Nature Fisheries Ltée (Pêcheries Nature) is a small-sized fresh fish processing company located in St. Simon, Gloucester County. The company is owned and operated by Mr. Allard Benoit and is a related company of Atlantic Sea Harvest.

The company owns property and facilities at St. Simon and unloading stations at the Caraquet Wharf (roughly five kilometres from St. Simon). The St. Simon location consists of land and a processing building. The facility is relatively new, constructed in 1987, and in good condition.

Pêcheries Nature purchased the plant and building in 1990. In 1991, the company's activities were limited to the purchase and transfer of fish to Atlantic Sea Harvest. The company

processed and sold fish in 1992 but processed little or no fish in 1993 and closed in May due to a lack of supply.

Pêcheries Nature was only profitable in one of the past three years. The lack of profitability in 1990 and 1991 was a result of a lack of sales. Given the company's lack of significant profitability, the Royal Bank of Canada, the company's only secured creditor, called its outstanding loan in March 1993.

LA MORUE IMPÉRIALE LTÉE

Morue Impériale is a small, fresh groundfish operation located in Lamèque, Gloucester County, New Brunswick. The plant was purchased in 1984, operated primarily as a fresh, groundfish facility for eight years, and then closed at the end of 1992.

The owner of the company, Roger Noel, did not provide financial statements for the company therefore comments on profitability are not provided. In early 1993, the Royal Bank of Canada, the company's only secured creditor, called its' outstanding loan.

ELLIS SEAFOODS LTD

Ellis Seafoods Ltd. (Ellis Seafoods) is a fish processing company located in Stonehaven, Gloucester County, New Brunswick. Stonehaven is located along the north east coast of New Brunswick and roughly 20 kilometres east of Bathurst.

The company declared bankruptcy April 27, 1992. Ellis Seafoods' only secured creditor, National Bank of Canada, appointed Coopers & Lybrand, Moncton, as Receivers.

BOREAL SEAFOODS LTD AND LES IMMEUBLES LORIC LTÉE

Boreal Seafoods Ltd. (Boreal Seafoods) is a fish processing company located in Lower Caraquet, Gloucester County, New Brunswick. A related company, Les Immeubles Loric Ltée (Immeubles) owns the land and building.

Boreal Seafoods declared bankruptcy in June 1991 and Immeubles declared bankruptcy in March 1992. The company's only secured creditor, National Bank of Canada, appointed Coopers & Lybrand, Moncton, as Bankruptcy Trustee and Kennedy & Stevenson, Riverview as Receiver.

ALBERT & SONS LTD.

Albert & Sons Fisheries Ltd. (Albert & Sons) is a fish processing company located on Main St., Négauc, Northumberland County, New Brunswick.

The company went into receivership during the latter part of 1991.

The Royal Bank of Canada, located in Bathurst, New Brunswick, is the company's only secured creditor. The bank appointed KPMG Peat Marwick, Moncton, as Receivers. On behalf of the bank the Receiver sold the assets of the company, including land, building, and equipment, to a numbered company located in Moncton. The Department of Economic Development and Tourism did not have a loan guarantee with Albert & Son.

The study team requested the purchasers to indicate their long-term intentions with respect to the assets, including processing licenses, of Albert & Sons. At the time of writing, the study team had not received a response.

4.
DEFINING THE CRITERIA FOR A SUCCESSFUL COMPANY

The groundfish resource crisis that is currently being experienced in the Atlantic coast fishery is probably the final and most significant driver in the restructuring and remodelling of an industry that historically has been traditional, family run and unsophisticated producing commodity products for an unknown market. The most obvious result of the resource crisis is an acceleration of a down-sizing process that had already commenced on a voluntary basis in certain segments of the industry and has grown to include involuntary closures, and liquidations.

The resource crisis is the culmination of protracted mismanagement of a resource and industry that has resulted in extensive overcapacity in harvesting and processing. This capacity was created and supported by government without an understanding of the limits of the resource or implications on the resource and the industry of that support. Indirectly government was supporting bad management as companies that should have died were resurrected with government aid. The competition for resources forced many firms to make management and operational decisions that served neither their balance sheet nor the industry.

The downsizing of the fish processing industry has changed the size and configuration of an industry that was already reckoning with dramatic changes to the well established and entrenched ways of doing business. After three to four decades of bad to simply non-existent management in the fish processing industry, one is now able to differentiate companies simply by their management style. Management is emerging by necessity to deal with the new reality of doing business in the fish business. That change in the way that things are done originated with the fish products end-user confronting aggressive business practices in his environment and then worked its way back to the plant floor. Commodity type, passive production has been replaced, in the successful companies, with a pro-active, responsive, hands-on production. This can only be facilitated with effective and aggressive management that is equipped with the right tools to make the most of a limited resource base in a highly competitive global market - that is a successful enterprise.

The following outlines those qualitative and quantitative elements required to make a fish processing enterprise successful in the economic and resource environment of the 1990s. A successful enterprise is defined as a viable one. Specifically, a successful, viable enterprise is one that is able to survive the normal cyclical peaks and troughs which are indigenous to fish processing.

The current groundfish resource crisis in Atlantic Canada cannot be deemed to be a normal occurrence and enterprises have failed that, under normal downturns in the industry, might very well have survived. The intent of this section of the report is to review the nine companies that are subject of this report to ascertain whether or not the companies have, or had, the potential for sustained success. This in turn will provide an indication of how material the resource crisis has been to the current financial and operational status of the companies under review.

The criteria reviewed include:

- Production
  - Plant and Facilities
  - Quality Assurance
  - Technology
- Marketing and Market Satisfaction
  - In-house Marketing Initiative
  - Client Base
  - Species and Product Diversification
- Financial
  - Planning and Control
- Management

Production

PLANT AND FACILITIES

The quality and appropriateness of plant and facilities for a fish processing operation impact directly on the quality and yield of the product, the labour costs of production, the range of products produced, and certainly define the general perceptions of end users as to the professional nature of the entity with which they are dealing.

An optimal fish processing facility should be characterized as follows:

- a plant design that allows the ready flow of fish through the processing line. This is the optimal configuration for efficiency and quality in a groundfish operation as it allows the unhindered flow of product down the processing line minimizing handling and maximizing yield;
- sufficient electrical and water capacity;
- a state of repair and maintenance that, at a minimum, meets the Fish Inspection Regulations established and enforced by DFO;

- a level of hygiene and cleanliness equivalent to stringent food processing regulations;

- for indigenous resources, a location that allows the ready and quality transfer of raw material. For fish resources from outside Atlantic Canada, location is not as critical as most product would be acquired in the frozen form;

- appropriate and sufficient freezing and cold storage to avoid any bottle necks in production and to maximize production capabilities; and

- proximity to major transportation links.

A ready indicator of the quality of a fish processing establishment is that its best alternate use would be in other food processing which for many years has demanded a quality production environment.

For small to medium sized plants obvious impediments to quality production include:
- poor or no plant design which results in increased handling, and decreased quality and yield;
- lack of freezing capacity which limits production possibilities;
- size or configuration characteristics that limit the use of appropriate technologies.

In the last decade there has been a proliferation of plants in Atlantic Canada that meet only the minimum requirements for fish processing. All too often plants are not configured appropriately and the result is inefficiency, increased costs of production and decreased quality. They do not have freezing capacity nor do they deploy the technologies required to maximize and optimize production. They often only serve to attract raw material away from more established facilities in the area.

Quality Assurance

The company's propensity to strive for quality assurance is usually directly related to their marketing awareness and initiatives. It applies to basic product characteristics but also to packaging, presentation, and delivery. Consistency of quality and delivery is critical in establishing and maintaining customer relationships.

Quality assurance is most critically an attitude toward production and requires a commitment to operational activities that ensure quality on an ongoing basis. In larger plants this is usually in the form of dedicated quality control personnel and equipment. In smaller plants it is often sufficient that it be the manager/owner's attitude and that he impose the discipline on the personnel and facility.

Technology

Over the past decade, basic processing technologies have come to include grading, skinning, filleting, as well as increased automated handling. At the very high end it includes computerized production monitoring, weight, pack selection and portioning as well as parasite and defect detection technologies. These are most often only found in large fully integrated companies that have a certain level and continuity of supply. The principal impediment today to introducing first line technologies is throughput - having enough production on a consistent basis to justify the investment.

It is estimated that 50% to 60% of the plants in Atlantic Canada are "low tech" where they are still hand filleting, 30% to 40% are "mid-tech" or partly automated and 10% are high tech where the latest technology is available throughout the plant.

Skinning machines are found in virtually every plant including feeder plants, and government technology transfer personnel report that, for the most part, any plant with sufficient raw material to support the investment in groundfish filleting machines has already made the investment.

The appropriate level of technology for any individual plant is a function of many variables including:

- volume of fish processed;
- the source and size of the fish;
- the intended production mix; and
- markets served.

Processing technologies are most critical in the consideration of yield and consistency of product and quality. Large quantities of groundfish can be processed by hand but it is not likely that efficiencies of production will be realized by this production method. There are likely to be labour and logistics problems. The successful processing enterprise must be cognizant of the level of technological integration in similar enterprises and move to match it if they wish to remain successful. Those who ignore it are likely to be less successful.

Market and Market Satisfaction

Marketing involves the presentation of the enterprise's product to its markets, and involves advertising, promotion, selling, distribution and pricing, and ensuring market satisfaction. At the leading edge it can mean identifying new and emerging opportunities and products.

IN-HOUSE MARKETING INITIATIVE

Successful marketing is critical to the successful enterprise today. It is unusual for an enterprise that is not involved directly, in hands-on marketing of its products to enjoy continued

prosperity. A failure to effectively market the company's product can lead to reduced margins, increased inventory, and financial hardship or distress. Enterprises that continue commodity type production that is at the mercy of the, now, international marketplace are more vulnerable and usually less successful.

For most processing companies, successful marketing today means being able to respond to and service the trend in product and species differentiation. It demands an ability to identify and compete in niche or specialty markets. To do this requires continuous, direct contact with the end user to ascertain their requirements for product form, specifications, quality, delivery and consistency. It means moving away from the traditional relationships of processor/broker and an attitude adjustment from producing what is easiest to produce and then trying to sell it, to identifying and meeting customers needs, and doing it at a profit.

CLIENT BASE

Direct marketing usually results in a more diversified, broader client base. Those companies that sell all their product to or through one company are at risk of that market disappearing. An unfortunate example of this is the resulting chaos that was experienced by several firms when ABBA closed its doors leaving many New Brunswick processors with inventory and no client base. There are several firms in the Province that have well established relationships with one broker who handles all of their product and for them this has worked well to date. It doesn't work when the relationship deteriorates or disintegrates overnight leaving the facility with production that it can not readily sell. With a broadened client base the loss of one customer means attempting to reallocate a small portion of production to the remaining clients or developing a new client to absorb 25% or less of production.

Clear examples of effective marketing in a processing company are as follows:

- management advocating the importance of marketing and making a total company commitment to a marketing strategy and plan;
- the existence of in-house marketing personnel and budget;
- a diversified (ideally not more than 25% of production being sold to or through one source) client base, at least four or five principal customers; and
- a profit rather than sales oriented management strategy.

SPECIES AND PRODUCT DIVERSIFICATION

In recent years the increasing capacity and competition in fish processing and declining resources have combined to make raw material procurement the most important aspect of operations for a fish processing facility.

Dependence on one species or group of species can often result in the following detrimental situations for a fish processor:

- inability to redirect processing capacity to other species in the face of a downturn in the availability of the primary species;

- inability to respond to market intelligence on demand for specific products and species; and
- inability to redirect resources and production when profitability in one product declines.

Financial

Finance for a fish processing enterprise includes basic activities such as accounting, reporting and banking. In recent years it has been expanded to include more complex issues such as foreign currency management. It also includes the running and management of the company to be in line with its financial resources and limitations.

PLANNING AND CONTROL

A common problem that has often been encountered in the groundfish processing industry has been the escalation of input costs without a commensurate increase in the selling price of the product, or an increase in selling costs that is eroded by significantly increased direct costs. Coopers & Lybrand reported in the recent Cashin Task Force that by far the pricing/costing relationship (net of interest and exchange effect) has been the greatest influence on profitability in fish processing in the past 15 years.

Much of the potential profitability in the industry has been lost through increases in input costs, especially raw material and labour costs. There is no question that industry needs to improve their ability to control the costs of materials.

As reported, it is likely that the inability of industry to control or at least contain material costs is a function in part of the overcapacity in the industry as intense competition drives up the shore prices for raw material. Increasing labour costs are often the result of the company's attempt to keep a dedicated labour force despite decreasing resource availability. A shift of workers will be kept in the plant even when there is insufficient throughput to warrant it to ensure that when throughput increases, the workers will be there. There is also a well established social commitment and perceived responsibility in many coastal communities and plant owners will endeavour to maximize "stamps" for their workers.

A major impediment to the continued success of a processing enterprise through the control of its inputs is the artificial barrier between harvesting and processing inherent in the fleet separation policy. The small to medium sized processor has little to no control over its source of supply whereas the harvester can react to market information by increasing the landed price of fish when the processor is experiencing a strengthening of prices even when the harvesters input costs have not increased.

Controlled and well planned operations are essential to the successful enterprise and could be defined as follows:

- to the extent possible, the purchase of raw material be in quantities and at prices that optimize operating revenues and maintain acceptable profit margins;

- that production is responsive to the marketplace to maximise sales and margins and minimize inventory;
- a balanced financial structure which allows for unexpected occurrences, downturns, seasonality, and the cyclical nature of the industry; and
- ability to constantly monitor and measure profitability of operations and adjust resources as necessary to sustain profits.

Management Capability

Historically individuals owning and managing fish processing enterprises in Atlantic Canada have relied upon skill sets that have been acquired by working in the industry. Many participants have not availed of formalized education especially in the specialty areas of management, operations and marketing. Hands on education has been the norm. In larger more integrated facilities this situation has changed dramatically with virtually all personnel receiving some level of training in production and quality, and higher level personnel being trained and educated in all aspects of the business.

More critical than any formalized training and education and training in this industry is the awareness of the need to recognize and acquire the necessary skill sets for survival and success in this business. For the most part these skills can be learned on the job and if the owner/manager does not have the propensity or ability to acquire them, if the size of the company permits, can hire and utilize staff who already have the skills.

5.
MEETING THE CRITERIA FOR A SUCCESSFUL COMPANY

The following section addresses how each of the nine study plants meet the criteria for a successful company.

Group One Companies

Group One comprises L'Association Coopérative Des Pêcheurs de l'Ile Ltée (Co-op Lamèque) Produits Belle Baie and Carapro Ltd. These companies are currently in operation. The Co-op Lamèque is, however, facing some serious problems which need to be addressed.

L'ASSOCIATION COOPÉRATIVE DES PÊCHEURS DE L'ILE LTÉE

Co-op Lamèque cooperated fully with the study team requests for information. The financial records of the company are public information. The study team made 2 visits to the facility and met with the General Manager, Mr. Real Chiasson and the Comptroller, Mr. Reginald Larocque.

Production

Plant and Facilities

The Co-op Lamèque plant in Lamèque is the most impressive facility of all the plants in the study in terms of physical lay-out, location, condition, equipment and freezing capacity.

The plant is divided into two sites located in Lamèque and Ste-Marie. The Lamèque site is the main, original processing complex; the Ste-Marie site is a lobster pound and storage facility.

The main complex in Lamèque consists of a series of buildings that house individual plant functional areas (ie. processing lines, engine rooms, offices etc.). The plant buildings are in excellent condition, as is all plant processing equipment. This high level of facility maintenance can be attributed to the in-house machine shop and maintenance staff that is present in the plant. The facility has an excellent structure that ensures efficient flow of production from the input of raw material to the output of the company's finished products. There is a high level of sanitation and cleanliness in the plant and hygiene guidelines and regulations are strictly enforced.

The facility has three large blast freezers, and several large plate freezer units. The plant also has several cold storage areas as well as several large thawing units.

The Co-op Lamèque plant is strategically located on the Lamèque wharf allowing for direct access to the water. The plant itself is the largest structure in the town of Lamèque and is in close proximity to all of the amenities of the town. The plant also has direct access to Highway 11 for transportation requirements.

To date, the facility has met all of the Fish Inspection Regulations which cover standards for construction and equipment, operations and sanitation for inside and outside of the facility.

Quality Assurance

Co-op Lamèque prides itself on its quality assurance efforts. The plant has up to six full-time quality assurance staff who continually analyze and record production samples in the facility's DFO approved test kitchen and labs. The plant continually certifies for the Good Manufacturing Practices (GMP) designation annually as a way of ensuring their adherence to strict quality control.

Co-op Lamèque also has co-packing arrangements with companies such as President's Choice and Red Lobster that demand a high level of quality assurance of the company's products and product packaging.

Technology

The main plant at Lamèque can be generally classified as a "medium to high tech" facility. All equipment is either new or in a near-new state as the level of equipment maintenance is very high.

The groundfish operation is equipped exclusively with Baader technology, which is in excellent condition and continually checked for preventative maintenance. The technology includes several partially and fully automated grading, skinning, filleting and weighing machines. Redfish and other groundfish, cod, haddock and hake, except flatfish are filleted by machine. The groundfish operation is also equipped with large candling tables for parasite removal.

The plant is fully equipped to process large volumes of herring. Filleting is fully mechanized and machinery sex sorts for roe production.

The plant is equipped for crab meat and section production including an IQF tunnel and fully mechanized shrimp production.

Marketing and Market Satisfaction

In-house Marketing Initiative

The Co-op Lamèque has chosen a very different marketing strategy from Produits Belle Baie which has distanced them in varying degrees, depending on the product, from the market place. The production of Co-op Lamèque is marketed through three channels:

- groundfish is marketed under their own label solely through Clouston Foods, a subsidiary of Fishery Products International;
- all shellfish products are marketed through Atlantic Queen Seafoods under that label. This is an Atlantic based marketing agency representing companies from New Brunswick and Newfoundland. Member companies are reported to have direct input into the marketing strategy of the company;
- fish meal and herring products are sold directly by the coop.

At present, Co-op Lamèque does not have any dedicated, in-house marketing staff. While the marketing function is officially handled by these two agent organizations, Co-op Lamèque reportedly has input into the marketing policies and strategies that these two agents implement on their behalf.

Client Base

The client base for Co-op Lamèque varies in dependency and vulnerability by species grouping. For groundfish which currently accounts for 40% of sales and has accounted for more than 50%, is sold to only one client, Clouston Foods. Despite the fact that Cloustons is a large, well established diversified company, it still places the Co-op Lamèque in a vulnerable position with such a large percentage of its production being sold to one entity. The perceived advantage of such an arrangement is ease of access to markets.

The exact client base for Atlantic Queen Seafoods was not available, however its primary markets include Canada and the U.S., and Europe, which is handled by Atlantic Queen Seafoods Europe. The co-op is reported to have direct input into the marketing strategies of Atlantic Queen Seafoods and would in return be able to access immediate, relevant market information and intelligence.

Co-op Lamèque's client base for herring roe consists of three main Japanese companies that purchase herring roe from the company in the fall of the year. The exact number of livestock feed companies that are purchasing fishmeal by-product from Co-op Lamèque is not known, the total amount of sales for this product is believed to be rather small in relation to the companies other products.

Species and Product Diversification

Co-op Lamèque produces a wide range of fish and seafood products including groundfish, pelagics and shellfish. It has been traditionally very reliant on groundfish production which accounted for 55% and 57% of the value of sales in 1990 and 1991, respectively, and 46% and 42% in 1992 and 1993 respectively. As groundfish sales declined by 38% from 1990 to 1993,

shellfish sales increased by 26% during the same period. Pelagic sales have declined by 80% since 1990.

The Co-op Lamèque produces a full range of groundfish products including frozen block (57%), frozen 5 lb fillets (23%), frozen IQF (15%) and shatterpack (5%). The facility also produces limited quantities of 5 pound redfish fillets and shatterpacks.

Shellfish production is dominated by shrimp, with volumes increasing by 43% from 1991 to 1993. Lobster and crab also make significant contributions to sales and both are on the increase.

The company's herring production was divided between roe (35%), fillets (31%), milt (24%) and round product (10%).

Financial

Planning and Control

A review of the company's financial statements indicate that operating results were strong only in 1990. In the following years, the company had net losses and declining gross margins. The primary impetus for declining gross margins was apparently increasing purchase costs relative to sales.

Given the structure of the company, Co-op Lamèque was compelled to purchase fish from its members. As a result, the company was forced to purchase volumes at prices demanded by their members rather than attempt to purchase quantities that optimized operating revenues and maintained acceptable gross margins.

Management

The management of Co-op Lamèque are apparently capable and have the requisite skills, with the exception of marketing and market development, to operate a fish processing company.

PRODUITS BELLE BAIE LTD AND CARAPRO LTD

Only limited information was made available to the study team on Produits Belle Baie and Carapro Ltd. Site visits were made on two occasions and discussions had with the General Director and the Sales Manager. To date, no financial information has been made available for review by the study team.

Production

Plant and Facilities

The PBB facility is located directly on the wharf in Caraquet where vessels can readily off-load directly to the plant. In addition it is very well located in the centre of the town and just off the main highway. Carapro is located across the highway and has no water access.

The PBB facility is not a new facility but is well maintained and clean. It is not well laid out and in fact the production floor appears somewhat congested. It does have both blast and plate freezing capacity and ample cold storage.

Carapro is an old facility, but well maintained and better laid out than PBB. It is equipped for groundfish, herring including roe, and shrimp production. It has 6 plate freezers, a CO2 tunnel freezer for shrimp.

To date, both facilities have met all of the Fish Inspection Regulations which cover standards for construction and equipment, operations and sanitation for inside and outside of the facility.

Quality Assurance

Discussions with the Director General highlighted the companies' attention to quality assurance. Both facilities employ quality assurance personnel. The company has been successful in many markets including the Japanese and European markets, and in 1987 won the "American Award for Quality".

Technology

Groundfish

PBB utilized automated filleting machines for redfish (1 Baader 153) and other groundfish (1 Baader 184) production. All of Carapro's groundfish is hand-filleted. PBB would be considered somewhat of a mid-tech groundfish plant and Carapro a low tech facility.

Herring

Herring production was also mechanized with herring filleting machines found in the both facilities. One is always more likely to find herring processing machinery as the volumes of fish processed and the typical production margins demands the use of this automated machinery. Neither facility utilized a sex sorting machine for herring roe production.

Shrimp
Shrimp production is fully mechanized which is, again, essential for volume production of industrial shrimp.

Marketing and Market Satisfaction

In-house Marketing Initiative
Produits Belle Baie is very proactive in its marketing initiatives and strategy. The marketing arm of PBB sells for both companies and has dedicated marketing personnel and a marketing budget. The company participates in all the major fish shows and over the past 10 years has been awarded the Canada Export Award for its development of new export markets, and the International Food Award.

Client Base
The companies sell 40% of their production directly to the end user and the remaining 60% to 10-12 brokers in markets in the US, the Far East, and Europe. Its client base is diversified and demands and provides close contact with the end user generating relevant, immediate market and product intelligence.

Species and Product Diversification
PBB and Carapro produce a well diversified product line. Their marketing brochure identified the full range of products including:

- groundfish: cello pack, layer/shatter pack/ block and mince, IQF, H&G
- shrimp: Cooked and peel in various packs and sizes, and IQF raw frozen
- crab: meat, sections (cooked and raw), cocktail claws
- mackerel: block frozen, IQF, cello fillets, layer pack
- herring: round frozen , H&G, Butterfly fillets, marinated fillets or H&G, roe, and in wine sauce
- lobster: tails, meat, claws and knuckles in cans or specialty pack

Valued added/tertiary production of herring and crab products is undertaken and there are plans for a wide range of value added products in crab and shrimp.

Financial

Planning and Control
Management reported to the study team, and is supported by other evidence, that the companies are profitable and have been for at least the past two years. There is no short term debt, and cash deposits are on hand.

Management appears to be cognizant of and responding to the critical and relevant issues that effect operations and profitability in this industry. They recognized the margins squeeze in crab, then groundfish, and chose to process other species or higher volumes of existing production rather than enter the high risk activity of buying high and hopefully selling high.

The companies willingly moved away from certain groundfish species in favour of increased herring production.

As financial information was not made available to the study team a full assessment of the financial position of the company was not possible.

Management

Mr. Chiasson has been with the company since its inception in 1969 as a crab processing plant and directed its expansion and diversification into shrimp, groundfish, and pelagics.

The companies have more than survived the resource crisis in part or in whole due to strategic and effective management practices. The Company is reportedly profitable despite having lost access to groundfish, which in 1992 accounted for 31% of production. The companies are diversified in their production and markets and do not appear to pursue the "volume or die" approach to production which has obviously served them well. Management has been steadfast in its refusal to pay inflated prices for raw material when the market conditions could not support them.

Group Two Companies

Group Two companies include:

- Atlantic Sea Harvest Co. Ltd;
- Pêcheries Nature Fisheries Ltée; and
- La Morue Impériale Ltée.

The loans of these companies have been called by their secured creditors but they have not been placed in receivership or bankruptcy.

ATLANTIC SEA HARVEST CO. LTD.

Atlantic Sea Harvest made every effort to respond to data requests for the study team including detailed financial information.

Production

Plant and Facilities

With the possible exception of Albert & Sons, the Atlantic Sea Harvest plant and facilities would rank at the top of the Group Two and Three companies in terms of physical lay-out, location, condition and freezing capacity.

The facility is relatively new, constructed in 1983 with modifications and extensions made in 1986 and 1988, in good condition, and has been constructed and configured in an "in-line" format for fish processing.

To date, the facility has met all of the Fish Inspection Regulations which cover standards for construction and equipment, operations and sanitation for inside and outside of the facility.

The facility is well equipped with ample freezing, both plate and blast, and cold storage which is critical to a diversified fish processing operation.

Atlantic Sea Harvest is located in a high traffic intersection, reasonably central to the area. The plant is not ideally located for the receipt of fresh local fish as it is not on or near the water; raw material must be trucked. For frozen or out of Province fish the plant is well located on Highway 11.

The plant's best use would be any type of food processing which would include fish processing.

Quality Assurance

There are two clear indications of a high level of quality assurance being deployed at Atlantic Sea Harvest:

- a co-packing arrangement with Slade Gorton & Company (a large integrated American fish processing company); and
- statements by the principals on the company's commitment to quality assurance.

Co-packing is not an uncommon arrangement in the fish processing business but does require, and in fact demand, very high standards of production. There is a small test kitchen in the Atlantic Sea plant with some equipment including a retort, and the list of employees does identify one employee in a quality control position. The principals have stated their commitment to this aspect of fish production.

Technology

Atlantic Sea Harvest was not technologically advanced and employed the barest minimum of processing technology. It would be classified as a "low tech" plant, which is appropriate for a facility producing $2-$3 million per year.

The groundfish operation was only partially mechanized and utilized hand-filleting rather than machine filleting. It did deploy skinning machines and candling tables for parasite removal. The production mix of fresh and frozen boneless fillet indicates that the company was using the technology it had to its fullest but that equipment and machinery for higher product yield (filleting machines for cod and especially redfish), and quality were not introduced to the operation.

The company's throughput was on the threshold of supporting the acquisition of a Baader 184 groundfish filleting machine. A second-hand low cost machine could have been supported before the company began to experience financial distress. Atlantic Sea did not process sufficient redfish or flatfish to support automated filleting machines for those species.

The plant is equipped with a retort system for canned lobster as well as a vacuum pack machine for the production of value added lobster meat packs. In the later years, lobster was not processed at all but sold live.

The company reported that it had intended to introduce computerized productivity controls during the 1992 season but this was not implemented.

While the introduction of automated filleting machines would have provided certain advantages to the company, the problems encountered by Atlantic Sea did not result due to the fact that the company employed a low level of automation in the plant.

Marketing and Market Satisfaction

In-house Marketing Initiative

Atlantic Sea Harvest relied on the market connections and experience of its principal Allard Benoit to sell its production. The company does not appear to have a marketing budget.

Client Base

Atlantic Sea Harvest provided a breakdown of their sales by their major customers for 1992 which showed that their five top customers were buying roughly 60% of their sales volume and the company was dealing with them directly.

The distribution of that 60% of sales in 1992 was as follows:

Company	% of Sales by Value
Company 1:	31%
Company 2:	23%
Company 3:	3%
Company 4:	2.5%
Company 5:	1%

Species and Product Diversification

The groundfish production data made available to the study clearly indicates that Atlantic Sea Harvest over the period in review 1989 to 1993 moved their production from fresh, head-on dressed or fresh round throughput to the fully processed boneless, skin-off fillet.

The company reported in 1991 that it was producing a range of 16 different products fresh, frozen, smoked, salted, although the vast majority of production was in fresh and frozen form.

Atlantic Sea Harvest has been for the most part dependent on the throughput of groundfish. The precipitous decline in throughput with the decline of the groundfish resource is clearly indicative of the plant's dependence which was further translated into extreme financial distress for the company. From 1988 to 1993 Atlantic Sea Harvest's production was 89% groundfish and the production of other species was limited to the resale of live lobster and limited scallop production.

Financial

Planning and Control

A review of the financial statements of Atlantic Sea Harvest indicate that the 1990 operating season was the beginning of the financial distress for the company and resulted directly from buying practices that could have, and should have been, avoided. The company succumbed to the all too common impulse to increase or maintain production at any cost and bought groundfish at higher than normal or supportable prices.

Despite a net loss from operations in 1990, in 1991 Atlantic Sea Harvest purchased significant quantities of raw material during a "price war" in Nova Scotia. The company bought sufficient fish that year to maintain raw material throughput levels. This price was tolerated and fed during a time of oversupply in the US market. The result was a softening of finished product prices and inventory build up.

Atlantic Sea Harvest reported that the reason for their actions were to retain its fishermen, keep up with other buyers, and maintain its position as a serious and reliable fish buyer. The company felt the necessity despite a track record of buying significant quantities of groundfish since 1984.

Based on the financial and production data made available to the study it appears that Atlantic Sea Harvest:

- did not purchase raw material in quantities or at prices that optimized operating revenues and maintained acceptable profit margins;
- did not plan production that was responsive to the marketplace, to maximise sales and margins, and minimize inventory. Inventory levels tripled between 1989 and 1992;
- in 1989 Atlantic Sea Harvest had a healthy, in fact enviable, balance sheet for a company of this size. The company experienced a dramatic increase in expenses in 1989 that reduced profitability. In 1990 the financial position started to slip, worsened in 1991, and by 1992 was irreversible. The principal appeared to try and solve his financial problems by increasing volume but was actually producing "more and more" for "less and less" as the fallen margins over the period indicated. The company was not able to maintain a balanced financial structure which would allow for unexpected occurrences, downturns, seasonality, and the cyclical nature of the industry;
- the Company did not respond to falling margins and decreased profitability of operations and did not adjust resources as necessary to sustain profits.

Management

Management and control of Atlantic Sea Harvest has been largely confined to the Benoit family. The 5 shareholders have in excess of 80 years of experience in the fish processing industry and all have been with Atlantic Sea Harvest since its inception.

None of key management have secondary education. None of them have completed high school. None reported any specialized training for the fishing industry.

By 1990 the Company should have been responding to its declining financial position and should have been right-sizing for the changing market conditions for raw material and finished product. It is apparent that the company did not have the correct skill set to recognize the problems and find and implement effective solutions.

PÊCHERIES NATURE FISHERIES LTÉE (subsidiary of Atlantic Sea Harvest)

Production

Plant and Facilities

Pêcheries Nature has the newest facility among the study plants. Given the minimal level of activity within the plant in the last few years, the facility has not been subjected to the normal wear and tear associated with operations and has remained in good condition.

The plant has no freezing capacity only cold storage, thereby limiting its production capabilities.

The plant is located on the water but has no water access at the site. It is five kilometres from the Caraquet Wharf.

While operating, the facility met all of the Fish Inspection Regulations which cover standards for construction and equipment, operations and sanitation for inside and outside of the facility.

Quality Assurance
It is likely Pêcheries Nature and Atlantic Sea Harvest shared the same attitude toward quality assurance as they are related companies and the production of Pêcheries Nature was sold through Atlantic Sea Harvest.

Technology
Pêcheries Nature employed only minium machinery. All production was hand filleted. The facility functioned largely as a feeder plant to Atlantic Sea Harvest.

Marketing and Market Satisfaction

In-house Marketing Initiative
The company did not engage in the direct marketing of fish as production was generally sold directly to Atlantic Sea Harvest.

Species and Product Diversification
The company's production was primarily limited to cod and flounder with limited quantities of redfish, greenland halibut, and smelts. The company was licensed but did not produce eel, herring, mackerel, salmon, trout, and lake whitefish.

The company is only permitted to produce fresh, salted, smoked, spiced, marinated, and brined products.

Financial

Planning and Control
Given that Pêcheries Nature and Atlantic Sea Harvest are related companies, Pêcheries Nature's planning activities are tied somewhat to those of Atlantic Sea Harvest. In 1991, management decided to transfer fish from Pêcheries Nature to Atlantic Sea Harvest whereas in 1992, the Pêcheries Nature facility processed fish supplied by Atlantic Sea Harvest. In effect, the operations of the two plants should be considered collectively.

For the only year of production, 1992, Pêcheries Nature did generate a net income however the gross profit margin was 8%, only slightly higher than that for Atlantic Sea Harvest. This low profitability was linked to high direct labour costs, 27% of sales. In effect, Pêcheries Nature was also unable to control its' input costs.

MANAGEMENT
Refer to Atlantic Sea Harvest.

LA MORUE IMPÉRIALE LTÉE

There was only limited cooperation between the Company and the study team. No financial information was made available at the time of writing.

It can be said that this was an opportunistic operation concentrating on fresh fish and utilizing minimal facilities and equipment. While operating, the facility met all of the Fish Inspection Regulations which cover standards for construction and equipment, operations and sanitation for inside and outside of the facility.

The company did not appear to have any long term strategy.

Production

Plant and Facilities
The facility, which was constructed in 1981 and extended in 1987, is relatively new and in good condition. The facility is not readily distinguishable as a processing facility.

The plant only has ice making capacity thereby severely limiting its production capabilities.

Quality Assurance
Insufficient information was made available to the study to comment.

Technology
The plant's groundfish production was hand filleted and machine skinned. The facility would be considered "low-tech".

Marketing and Market Satisfaction

No information on marketing and markets was made available to the study team other than the production was sold fresh to the United States.

Species and Product Diversification
Morue Impériale was not a diversified operation. In fact, the company's product offering was limited primarily to two product forms, fresh skin-off fillets and fresh round, of two species of groundfish, cod and flounder. These product forms represented 92% of total production volume.

This lack of diversification meant that Morue Impériale was vulnerable to cutbacks in groundfish. The decline in groundfish resources in the early 1990s translated into a reduction in the company's production volume.

Financial

Planning and Control

Given the lack of financial data on the company, it is difficult to determine the level of planning and control within the operations of Morue Impériale.

Group Three Companies

Group Three companies include:

- Ellis Seafoods Ltd.
- Boreal Seafoods Ltd and Les Immeubles Loric Ltée
- Albert & Sons Ltd.

Ellis Seafoods Ltd and Boreal Seafoods Ltd have already been placed in bankruptcy. Albert & Son was placed in receivership and all of the assets were sold.

ELLIS SEAFOODS LTD.

Production

Plant and Facilities

The facility, which was constructed in 1982 and then extended in subsequent years, is relatively new and in good condition, and is well equipped with freezing, both plate and blast, and cold storage.

The plant is located at the Stonehaven Wharf and therefore close to sources of raw material.

While operating, the facility met all of the Fish Inspection Regulations which cover standards for construction and equipment, operations and sanitation for inside and outside of the facility.

Quality Assurance

Insufficient information was made available to the study to comment.

Technology

A review of the equipment owned by Ellis Seafoods indicates the company was "low-tech".

Marketing and Market Satisfaction

Insufficient information was made available to the study to comment.

Financial

Planning and Control

At the time of writing no financial information had been made available to the study team.

Management

Insufficient information was made available to the study team to comment.

BOREAL SEAFOODS LTD AND LES IMMEUBLES LORIC LTÉE

No financial or operations information for the company was made available to the study team.

ALBERT & SONS LTD

No financial or operations information for the company was made available to the study team.

6.
RATIONALIZATION OPTIONS

At the outset of this project, it was contemplated that the nine enterprises under review would have to be evaluated and ranked in order of ability to survive and prosper. As a result of these evaluations, it was expected that the nine enterprises would be placed in one of the following classifications:

- Viable
- Marginally Viable
- Not Viable

Viable means being able to survive the normal cyclical downturns in the industry without assistance.

Marginally Viable means generally capable of survival, but having one or more significant weaknesses that would threaten survival if they are not corrected.

Not Viable means having sufficient weaknesses such that any strength or advantage is effectively nullified, and the likelihood of successful intervention is low.

Based on the original classifications of the nine enterprises, it was expected that those in the Viable and Marginally Viable categories would be sufficient in number to pose continuing competition for scarce groundfish resources.

As earlier disclosed, much of the information originally contemplated as being necessary to complete this project was not made available for various reasons.

In three cases, the participants were not willing to provide the information requested. In three cases, the participants were not able to provide much of information requested. Only in three cases was most of the information requested made available.

Notwithstanding these difficulties, on completing the review of all of the information made available, the conclusions are apparent in that, in all but two cases, the options are clear.

Based on the information provided, these are the classifications of the nine enterprises:

Viable:
- Produits Belle Baie Ltée

Marginally Viable:
- L'Association Coopérative des Pêcheurs de l'Ile Ltée
- Atlantic Sea Harvest Co. Ltd.
- Pêcheries Nature (see Atlantic Sea Harvest)

Not Viable:
- Morue Impériale Ltée
- Ellis Seafoods Ltd.
- Boreal Seafoods Ltd.
- Albert & Sons Ltd.
- Carapro (see Produits Belle Baie) Ltée

This is a significantly different set of expectations than when this project was begun.

Enterprises That Are Viable Or Marginally Viable

PRODUITS BELLE BAIE

While management would not provide any financial information, they represented that the company was quite profitable and without short-term indebtedness. This was confirmed in general by other reliable sources. Management was co-operative in discussing its practices and strategies.

Produits Belle Baie has apparently successfully managed to reduce its reliance on groundfish and now operates utilizing mainly crustaceans and pelagics.

From discussions with management and a review of the company's operations, its success is based on the following factors:

1. Unrelenting focus on profitability. Management advised that the company experienced two years of losses in the late 1980s, which appears to have resulted in a determination to be consistently profitable. This determination has resulted in the avoidance of practices which are detrimental to profitability, such as the pursuit of high sales volumes. Within the fishery, many processors often attempt to preserve or increase sales volumes in the face of declining profit margins. Generally, the stated purpose is to preserve supplier loyalty. That is, the processor feels that he must buy from his traditional suppliers on a continuous basis, even at prices that result in significantly reduced margins so as to maintain supplier loyalty. The reality has often been that such loyalty cannot be maintained through such means, and such

a processor often finds himself in a profit squeeze, where increasing supplier prices cannot be passed on to the processor's customers.

This phenomenon has occurred in New Brunswick, notably in the late 1980s, and again recently. It appears to have its greatest impact on processors in the following situations:

a. When landings are high, and harvesters pressure processors to purchase from them, even when market conditions are weak. Such conditions generally leave processors with high inventories, making them extremely vulnerable to even slight market price reductions.

b. When market prices are high, and the processor is anxious to participate in what appears to be an opportunity to maximize profits. Generally, harvesters are aware of such conditions, and often pursue the highest bidder. The processor purchasing aggressively under such conditions generally ends up moving high volumes at low margins. This can result in a condition known as "over-trading", where the level of activity is beyond the company's financial resources. Under such circumstances, higher than normal bad debts or product returns can result, and these can prove devastating.

Produits Belle Baie has consciously avoided such conditions in recent years. The ability to avoid these conditions takes nothing more than constantly monitoring operating margins, and having the will to restrict purchasing when margins do not meet target levels.

This often results in lower sales volumes at higher margin levels. In this case, if operating overheads can be contained, then overall profitability can be maintained. Because sales volumes are lower, generally inventories and receivables are lower as well. This generally results in lower short-term indebtedness, with resulting interest savings also contributing to increased profitability.

This appears to have been the case at Produits Belle Baie. Management advises that, while the company is profitable, it is not operating at optimum levels.

2. Concentration of resources on marketing and market intelligence. The company has devoted considerable resources in developing its own market niches. This has resulted in some 40% of its production being marketed directly to its customers without the use of intermediaries. This practice has several benefits:

a. It reduces reliance on intermediaries and gives the processor first hand exposure to changing market demands and conditions. This allows for better purchasing and production planning which means lower inventories and reduced likelihood of loss through prolonged holding of product.

b. It improves profitability by eliminating compensation to intermediaries, and allowing the processor to realize higher pricing on sales to end users.

c. It gives the processor a direct feel for what the market expects in terms of quality, presentation and delivery. This experience generally allows the processor to tailor its product to market requirements, which can lead to product differentiation and better market acceptance.

3. Secure supply sources. Produits Belle Baie secures a significant portion of its product from three large vessels which are connected to the company. This is of obvious benefit in times of short supply. However, such connections provide the following advantages, even in times of product abundance:

   a. Control over quality at time of harvest. This means harvesting, storing and shipping in a manner that preserves product quality, factors which are difficult to manage when there is no control over the harvesting process.

   b. Control over the timing of harvesting. Managing the harvesting process can result in better matching of the harvesting process to market conditions. This can mean higher margins and lower inventories.

4. Product/species diversification. Produits Belle Baie is a multi-species processor. The obvious benefit here is in the ability to change focus when either supply or market conditions are not favourable. A less obvious benefit is the ability to offer diversified products to individual customers, thus strengthening customer relations.

5. Focus on quality and value added. More than most processors of its size, Produits Belle Baie has focused on quality and presentation of its products. This goes hand in hand with its attention to marketing in responding to its customers' requirements. In Produits Belle Baie's case, value added has meant more attention to packaging and presentation, rather than tertiary processing, although some of this is undertaken as well.

These strengths set this company apart from the others in the project group.

The owners of Produits Belle Baie also control Carapro. This is an older facility, adjacent to Produits Belle Baie, which relies entirely on Produits Belle Baie for its supply, management and marketing. It therefore cannot be considered a separate operation for purposes of this discussion. While this plant has been operated at reasonable levels in the past, management recently decided to change it to more of a seasonal operation to deal with peak production situations.

Rationalization Options

Obviously the consideration of options is moot as the company is apparently in good financial shape and under control. Management's intention is to continue with its current strategies. In terms of groundfish, management is confident that it will continue to be profitable utilizing other resources, and that if future groundfish resources become available, then this will only serve to increase production to optimum levels and increase profitability.

L'ASSOCIATION COOPÉRATIVE DES PÊCHEURS DE L'ILE LTÉE

Management was extremely co-operative in providing most of the information requested for this project.

This enterprise is considered to be potentially viable for the following reasons:

1. Despite recent losses, it continues to have a reasonably strong balance sheet, with members' equity of nearly $5 million at December 31, 1993.

2. Of the nine enterprises reviewed, it is by far the best equipped in terms of physical plant, having the capacity to process a wide range of species using medium to high levels of automation. Co-op Lamèque's current plant configuration places it among the best Atlantic Canada has to offer.

3. It is a multi-species operation, and is therefore capable of continuing operations, albeit at reduced levels.

4. Co-op Lamèque devotes considerable resources to quality assurance. By itself, this produces little or no value. However, in conjunction with a strong marketing effort, attention to quality helps assure consistent market acceptance.

It is considered marginal for the following reasons:

1. Losses in 1993 were significant and results for the first five months of 1994 indicate a worsening position. While equity levels are still considerable, continuing losses at these levels will leave the Co-op Lamèque at the mercy of its lenders within six months to a year unless a corrective strategy is put in place.

   While the groundfish shortage has contributed to this situation, Co-op Lamèque's real difficulty lies in significantly reduced operating margins, down from an average of 13% up to and including 1992, to 7% in 1993. This problem is continuing into 1994, with margins to May nearly 20% lower than anticipated.

2. At present, Co-op Lamèque carries out no direct marketing, relying almost entirely on relationships with Clouston Foods and Atlantic Queen Seafoods. This means that the Co-op

Lamèque cannot be as responsive to its markets as it must be, leaving it vulnerable to the direction taken by its marketing agencies. This also means reduced margins and higher inventories than would otherwise be the case.

3. It is reported that the Co-op Lamèque is having significant difficulty in maintaining member loyalty, particularly from supplier members. In the short term, this also places pressure on operating margins, as it is likely paying high prices to its remaining supplier members to maintain their fidelity, as well as to others to ensure continuity of supply to allow operations at traditional levels.

   In the long term, this issue calls into question the very reason for the Co-op Lamèque's existence.

4. While the size and capability of the plant and equipment are an advantage, the costs of owning and operating them are high. These costs are relatively fixed, and therefore require higher volumes to support them.

While a restructuring plan for the Co-op Lamèque is beyond the scope of this project, in order to survive and prosper, the Co-op Lamèque must take the following actions immediately:

1. Develop its own marketing capability. Given our emerging global markets, no enterprise of this size can continue to rely on others for its marketing intelligence and strategy. At a minimum, such a strategy should include:

   a. Hiring of at least one highly experienced, creative and energetic marketing person whose responsibility is to increase contact with intermediaries and end user customers with a view to forming close relationships over time. At one point, Co-op Lamèque had employed a marketing person, however, this position is presently vacant.

   b. Immediate broadening of the base of intermediaries used in order to maximize prices realized and increase opportunities for eventual direct customer relationships. The objective should be to expand from the current two representatives to between five and ten, combining good geographic coverage representing the species produced by the Co-op Lamèque.

   c. Attend major industry trade shows as an exhibitor. This is the fastest way to:

      i. determine those product offerings that are in demand,
      ii. begin to form relationships with a broad base of intermediary and end user customers, and
      iii. assess and perhaps emulate those strategies used by competitors to increase market penetration.

The ultimate objective is to identify a niche of customers that can be supplied consistently given the products and species that can be made available to the market by Co-op Lamèque.

2. Begin to limit production to only those products and volumes that can be produced at acceptable profit margins. This will likely mean a significant reduction in production and sales volumes in the short term, which requires a significant immediate reduction in overheads. It also requires aggressive action in reducing inventories and receivable, which are currently at unacceptably high levels. Significant reductions of inventories and receivables will reduce short term borrowings by as much as $4 million, which in turn reduces interest expense, and will make Co-op Lamèque's lenders more supportive regarding the balance of the strategy.

   The biggest issue here is to examine ways in which the physical facility can be down-sized in the short term so that overheads can be reduced. Fortunately, one of the largest fixed expenses is depreciation which contributes heavily to operating losses, but which is not a cash expense. At the very least, consideration should be given to moth-balling significant portions of the plant, and using that level of physical capability required to meet production requirements.

3. Negotiate with its lenders to restructure current indebtedness so as to reduce cash outlays as much as possible over the next one or two years. At a minimum, repayment of principal should be deferred for two or more years.

4. Begin to aggressively examine the relationship between Co-op Lamèque and its supplier members. If current problems cannot be rectified, then Co-op Lamèque will likely have little control over its future supply, and its very reason for existence is called into question. Attention to this matter may also be helpful in rectifying the margin problem.

Rationalization Options

For Co-op Lamèque, options for continuation depend entirely on its ability to retain and increase the support of its supplier members. If this issue can be resolved in the short term, then a restructuring plan can be developed that would see Co-op Lamèque continue to be viable. This can be stated with some confidence as the balance sheet is currently strong, production facilities are among the best in the region, and the other problems currently faced are identifiable as set out above and correctable.

If supplier member support cannot be maintained, then continuity of supply is called into question. Combined with the other existing problems, this will likely prove critical in a very short period of time. Obviously, continued supplier member support goes hand-in-hand with the ability of Co-op Lamèque to properly process and market its supplier members' landings. That is, it will be difficult to win the support of the supplier members if Co-op Lamèque is not able to process and market as well as its competitors. At the same time, supplier members

cannot expect Co-op Lamèque to purchase their landings at prices above what others are willing to pay.

If Co-op Lamèque continues to lose the support of its supplier members at the current rate, then its future is anything but secure. Continuing losses at existing levels will shortly result in increasing pressure from its lender. Notwithstanding the existence of government guarantees, in order for Co-op Lamèque to maintain the support of its lender, a credible management plan is essential to address the problems identified above.

If a credible management plan cannot be developed, then there are only two likely options in the near term:

1. Transfer of the assets to other fish processing interests.

2. Closure.

It is conceivable that the facility could be transferred to other private fish processing interests. Because of its condition and capability, it is possible that there are other private operators with market opportunities that cannot be satisfied with their own processing facilities. However, this has not proven to be the case for any other large facility in Atlantic Canada with the possible exception of the former National Sea Products plant in Canso, Nova Scotia, and the continued viability of that venture is questionable at best. Even if another owner/operator could be found, it is almost certain that they would not be prepared to pay anywhere near the economic value of the facility.

While alternate uses to fish processing might be considered, because of its location and especially because of its size, the facility is not likely adaptable to efficient use in any other processing industry. There is no other indigenous food processing in the area that could use such a facility in any economic way. Therefore, like all of the other large fish processing facilities in the region, this one is susceptible to closure.

Given these alternatives, and the potential for viability, it is recommended that a plan be developed and implemented to address Co-op Lamèque's problems, as discussed above. It is likely to take one to two years for such a plan to have recognizable results, and in this time frame, it is likely that operations and employment would be at lower levels. Regardless, long term viability can be achieved, and the resulting benefit to the area and the members are considered to be worth the effort.

Enterprises That Are Not Viable

None of the other enterprises studied is viable as a groundfish processor. Each circumstance is described briefly below.

ATLANTIC SEA HARVEST AND PÊCHERIES NATURE

These companies are under common control and are therefore described together.

Although at the outset it appears that these companies are victims of the groundfish crisis, this is in fact not the case.

Atlantic Sea Harvest was in difficulty long before the groundfish crisis was obvious, and was approaching insolvency by the time the crisis became evident in 1992.

The company was very successful up to and including 1989. Volumes and margins were relatively consistent, and the company was in an extremely strong financial position.

In 1990, the company experienced a decline in operating margins (from 14% to 10%), although in that year, it still showed a positive cash flow from operations with low short and long term indebtedness. Management's response to declining margins was to aggressively pursue sales volumes.

In 1991, sales increased by 21%, while margins plummeted to 7%. In 1992, sales increased a further 18%, with margins down to 6%. Because volumes were up, overheads also rose. The result was that over the three years ended in 1992, the company witnessed losses. Its debt/equity ratio had deteriorated and short and long term indebtedness was increasing since 1989.

Although financial statements were not available for 1993, indications are that significant losses were sustained.

The company is clearly insolvent. Although it continues to process very small volumes, it is in existence only at the mercy of its lender.

Notwithstanding all of this, the company and its management exhibited certain positive attributes.

There was apparent attention to marketing and quality, as evidenced by the very good condition of the plant, use of reasonable technology for operations of this size, and a reasonable market presence demonstrated by relationships with several large customers in the United States.

The plant is in good condition, easily accessible and well located. Because of this, it could easily continue as a fish processing facility, or it could be used for other food processing.

However, it cannot continue in operations because of its current financial condition.

In a more positive resource environment, continued use as a fish processing facility would be encouraged, albeit likely in the hands of other owners.

Regardless, the plant has no secure source of groundfish, and, given alternate resource availability as described elsewhere in this report, it is unlikely that alternate species can easily be secured to sustain operations at a viable level.

Rationalization Options

It is therefore unlikely that this plant can continue in fish and seafood processing, unless it is to the detriment of other processors in the area. It is therefore recommended that this facility be converted to other food processing and that this option be explored immediately. This recommendation may cause some confusion in light of the earlier statement that the better equipped Co-op Lamèque plant can likely not be used for food processing. The difference is one of size. Co-op Lamèque plant is so large that any food processing application would have to be on a significant scale to economically justify the use of the facility. The Atlantic Sea Harvest facility, by comparison, is small. It is considered more likely that a smaller application can be found in the area that would fit better with the smaller economics of this facility.

This recommendation is made with some reluctance for two reasons. First, of all the non-viable enterprises, this facility is best suited to continued use for fish processing. However, if this facility was to continue in fish processing, it would simply divert scarce resources from others with negative consequences. Second, there is no readily apparent alternate use in food processing. There may be possibilities in fruit, vegetable or berry production that could take advantage of the freezing and cold storage capability, and any of these would be ideally suited to this facility in terms of its size, location and condition. However, most of these opportunities are seasonal and might not fully utilize the facility. Nonetheless, it is currently felt that it is better to explore such opportunities, rather than make any effort to maintain the facility in fish processing.

MORUE IMPÉRIALE, ELLIS SEAFOODS, BOREAL SEAFOODS

Although these enterprises are not related to each other, they have common characteristics and are therefore dealt with together.

All three are insolvent with Ellis Seafoods and Boreal Seafoods in bankruptcy/receivership proceedings since 1991. Morue Impériale had its loans called in 1993.

All of these facilities are poor in terms of design, age, condition and location. Further, there is no evidence that they exhibited any specific strengths while in operation. Boreal Seafoods and Ellis Seafoods have been out of production for some three years and it is unlikely that they could easily be rehabilitated economically, even if production opportunities did exist. There has been some form of tentative offer made for the Boreal Seafoods facility by the Blue Cove group. However, this offer has been based on significant improvements being made to the facility, and the cost of these improvements would exceed the offer price. There is some feeling that this offer is a defensive one, in an attempt to keep the facility out of competitors' hands and thereby restricting resource competition.

Morue Impériale has been closed for some eighteen months. Although the building is in reasonably good condition, it has no features or characteristics that set it apart in terms of either fish or food processing.

Rationalization Options

It is therefore recommended that no attempt be made to rehabilitate any of these facilities, and that effort be concentrated on retiring the groundfish licenses.

ALBERT & SONS LTD.

This facility has been acquired from its lender by companies controlled by Mr. Eric Smith. Mr. Smith's stated intention is to process fish meal and fish oil. He has not indicated any interest in traditional groundfish processing. However, the question has been raised as to whether groundfish processing licenses are necessary for meal and oil production from groundfish offal, and at time of writing, this issue had not been resolved. Mr. Smith has undertaken to set out his intentions in writing regarding this facility. However, at time of writing, despite several discussions, this document has not been received.

Rationalization Options

If Mr. Smith's preliminary intentions are followed through, then rationalization of this facility has already taken place, and it simply remains to resolve the licensing issue. It has been suggested that Mr. Smith will approach governments for assistance with the production plans for this facility, and that negotiations for retirement or modification of the groundfish processing licenses will take place at that time.

Impact Of Groundfish Crisis On Reviewed Enterprises

It is convenient to blame all of the woes of these nine enterprises on the groundfish crisis. It is also simplistic to try and ascribe all of their difficulties to other causes.

The reality is that, with the exception of Produits Belle Baie, all of these enterprises have or had weaknesses, ranging from significant to catastrophic, that were well entrenched long before the groundfish crisis manifested itself. These weaknesses made each enterprise susceptible, to differing degrees, to the effects of the crisis. In most of the cases, however, it is likely that the enterprise would have faced severe difficulty regardless of the groundfish crisis, simply by virtue of their management practices and lack of skill sets in areas such as marketing and finance. This can certainly be said of Atlantic Sea Harvest and Pêcheries Nature. It is less certain about Morue Impériale, Boreal Seafoods, Ellis Seafoods and Albert & Sons, because of the lack of information on each. However, in each case, the enterprise had been closed or declining dramatically well before the groundfish crisis manifested itself in full form. This presents reasonably strong evidence that events would likely have unfolded as they did, crisis notwithstanding.

The one enterprise that does not conform to this conclusion is Co-op Lamèque. In many ways, it has been hurt dramatically by the groundfish crisis. However, it, among all of the others, was best equipped, from a financial and facilities perspective, to cope with the difficulties posed by the crisis. The fact that it did not modify its behaviour, as did Produits Belle Baie and others in the region, suggests that management is not willing or able to take the necessary steps, or the difficulties within the structure of Co-op Lamèque preclude such actions being taken.

The conclusion, in any event, is that Co-op Lamèque was equipped to deal with the crisis, but did not, and, although it suffered as a result of the crisis, the real damage has been caused by other factors as described above.

In summary then, the groundfish crisis did indeed cause significant difficulty within the groundfish processing sector in New Brunswick. It is reasonably clear, however, that much of this damage could have been mitigated and was not. This is borne out, not only by the experience of Produits Belle Baie, but by many other small and medium sized processors elsewhere in the region who have survived and prospered by changing quickly to adapt to changing circumstances.

Retirement of Processing Licenses

For reasons described above, license retirement is not relevant to the following enterprises:

- Produits Belle Baie
- Carapro
- Co-op Lamèque

These enterprises can and likely will continue in operation and will likely continue to process groundfish to the extent that such resources are available either from domestic or foreign sources.

License retirement is relevant to the following enterprises:

- Atlantic Sea Harvest
- Pêcheries Nature
- Morue Impériale
- Ellis Seafoods
- Boreal Seafoods
- Albert & Sons

As discussed above, Albert & Sons' licenses may be resolved through negotiation with the new owner regarding his stated plans to use the facilities to process fish meal and fish oil.

With respect to the remaining five enterprises, any discussions will take place with their respective lenders, as well as with the shareholders.

Atlantic Sea Harvest possesses not only groundfish licenses, but also lobster, scallop, rock crab, shrimp, herring and mackerel licenses. The resource scenario for these species is not however positive.

Pêcheries Nature, Morue Impériale, Ellis Seafoods and Boreal Seafoods also possess licenses other than groundfish. These facilities however are currently closed and/or in receivership and thus not positioned to take advantage of these licenses.

Given the resource scenario in groundfish and these remaining species, it is in the Province's best interest to retire all these licenses.

Discussions With Lenders

All five enterprises were financed by either the Royal Bank or the National Bank.

In three cases, the Province had provided loan guarantees which total $1.3 million.

Senior management of both lenders were contacted as part of this study. Both indicated a willingness to pursue some mutually acceptable alternative to liquidation. Each lender indicated a desire to see a plan structured around the realization of full value for guarantees in place.

The summary of indebtedness and assets values for the five companies is as follows:

Level of Indebtedness				Loan Guarantee	Preliminary Indications of Market Value				
Principal	Accrued Interest	Incidental Expenses	Total			Land	Building	Equipment	Total
$2,769,417	$58,724	$111,295	$2,939,736	$1,300,000	Non - Distressed	$89,000	$1,115,900-$1,295,600	$657,580-$791,840	$1,862,480-$2,176,440
					Distressed	$54,500	$557,950-$647,800	$469,700-$565,600	$1,072,150-$1,257,900

In the liquidation values used in this exercise, no value has been attributed to the groundfish licenses. There has been little evidence that such licenses have any intrinsic value in this environment, and this has been borne out by the experiences with Ellis Seafoods and Boreal Seafoods.

It is understood that each of the guarantees is provided by the Province by way of a shortfall guarantee. That is, the security in question must be liquidated before any call can be made on the guarantee.

Both lenders have indicated their willingness to negotiate settlement of these loans if such a structure includes ready payment of the guarantees.

Two options are therefore possible:

1. Liquidate the assets, with proceeds to the lender, and the shortfall covered to the extent of the guarantee, if any.

   This is the existing process. It has not worked well for Ellis Seafoods and Boreal Seafoods, whose assets have been in liquidation for some considerable time. Further, it leaves the licenses to the discretion of the lenders, and this does not achieve the desired results.

2. Pay the guarantee in full, and negotiate a blanket settlement on the remainder; with all security released to the respective companies or their trustees for disposal to the benefit of the other creditors and shareholders. This would include a release of personal guarantees held by the banks.

   Both banks have indicated a willingness to explore such an arrangement, and a shortfall settlement of 50% has been proposed by one of them. As an example, for one of the companies under review, the lender would be paid the guarantee of $500,000, leaving a loan shortfall of $335,000. The lender would receive an additional $167,500 ($335,000 x 50%), and would release all security, including personal guarantees. The assets would then return to the control of the company, its remaining creditors and shareholders. If the assets were then sold in an orderly manner, proceeds ranging between $497,000 and $969,000 might be realized for the benefit of other creditors and shareholders. Alternately, the assets might be used within the company for other purposes, if creditors and shareholders agreed.

   Obviously, a critical feature of this arrangement is that, in exchange for the settlement mechanism, licenses would be returned to the control of the Province to be retired. This aspect might be limited to groundfish licenses only, or may be broadened to include all fish processing licenses.

   Although one lender proposed a shortfall settlement of 50%, this matter would have to be negotiated between the lenders and the Province. It is expected that the range would lie between a low of 25% and a high of 75% of the shortfall. At the 50% level, payments under the guarantees would total $1.3 million, and shortfall payments would amount to $820,000, for total payments to lenders of $2.12 million, against loans totalling $2.94 million, leaving the lenders to absorb a total shortfall of $820,000.

   Using a shortfall settlement of 25%, the supplementary payments would total $410,000, with total payments of $1.71 million, including payments on guarantees, and the lenders absorbing $1.23 million.

The following table summarizes the impact of various shortfall settlements:

SHORTFALL SETTLEMENT	LOAN GUARANTEE PAYMENT	SHORTFALL PAYMENTS BY N.B. DOF	TOTAL PAYMENTS TO LENDER	SHORTFALL TO LENDER
25.0%	1.3M	.410M	1.71M	1.230M
37.5%	1.3M	.615M	1.915M	1.025M
50.0%	1.3M	.820M	2.12M	0.820M
75.0%	1.3M	1.23M	2.53M	0.410M

The advantage of this type of approach is that the licenses can be re-acquired, and assets remain for distribution to preferred creditors, unsecured creditors, and shareholders.

Alternate approaches can be considered incorporating features of each approach, and these can be negotiated with the lenders and owners of the facilities. In negotiating such an arrangement, care must be taken to avoid contravening any aspect of bankruptcy law. It is suggested that a preliminary structure be negotiated, and then reviewed by legal counsel, with modifications as necessary so as not to infringe on the rights of creditors and shareholders.

Conclusion

It is recommended that this latter approach be taken as it is the most beneficial to all parties, and is seen as being the only certain method to retirement of the licenses in question.

This strategy would leave two processors with groundfish licenses, each of whom is capable of being viable in the short term, and realizing the benefits should groundfish resources ever return to harvestable levels.